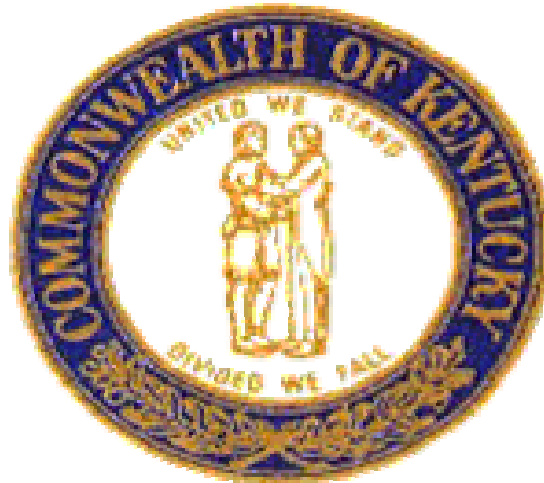


Department of Charitable Gaming

2002 ANNUAL REPORT



Paul E. Patton
GOVERNOR
COMMONWEALTH OF KENTUCKY

Janie A. Miller
Secretary
Public Protection and Regulation Cabinet

John Winstead
Commissioner
Department of Charitable Gaming

CHARITABLE GAMING ADVISORY COMMISSION

The Charitable Gaming Advisory Commission, established in KRS 238.520, the members of which are appointed by the Governor, provides ongoing advice and input to the Department of Charitable Gaming to assist in establishing effective policies for the licensing and regulation of charitable gaming. The Charitable Gaming Advisory Commission meets on a frequent basis to review matters affecting charitable gaming in the Commonwealth of Kentucky, proposed regulations, and the progress of the Department.

Jay Wethington, *Chairman*

*Representing the Commonwealth Attorney's Association
Owensboro, Kentucky
Term Expires: 7/10/2003*

Janie A. Miller, *Secretary*

*Representing the Public Protection & Regulation Cabinet
Member by virtue of office*

Jim Ringo

*Representing the Office of the Attorney General
Frankfort, Kentucky
Member by virtue of office*

Michael E. Hayes

*Member-at-Large
Louisville Kentucky
Term Expires: 7/10/2005*

Judith Coburn

*Member-at-Large
Worthington, Kentucky
Term Expires: 7/10/2003*

Robert E. Cohen

*Representing the Certified Public Accountants
Lexington, Kentucky
Term Expires: 7/10/2005*

Donald G. Dixon

*Member-at-large
Lexington, Kentucky
Term Expires: 7/10/2005*

Robert McCray

*Member-at-Large
Newport, Kentucky
Term Expires: 7/10/2004*

Lisa K. Owen

*Member-at-Large
Elizabethtown, Kentucky
Term Expires: 7/10/2004*

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A Letter from the Commissioner

The Department is excited that another year has passed and the charities have made a record amount of money through charitable gaming to use for their charitable purposes. Our agency is privileged to partner with the charities to accomplish these goals and look forward to continuing that partnership. The Department continues to seek ways to assist the charities in gaming while policing the industry to ensure that the charities do not fall prey to those seeking to use charitable gaming as a means to make money for themselves and not the charity.

As we look to the future, the Department will continue to strive to ensure that charitable gaming is an activity in which more charities participate to make funds for their charity and make the industry safer for those charities already gaming.

As always, the Department serves as a resource for the charities and has training available at the office in Frankfort, KY. Also, while the website has been on-line for several years, the Department is working to make it more informative and educational for the charities. Please visit us at dcg.ppr.ky.gov

With your help, charitable gaming has a bright future.

John Winstead
Commissioner
Department of Charitable Gaming
Cabinet for Public Protection and Regulation

I. YEAR'S HIGHLIGHTS

A. Gross Handle

In 2002, Kentucky posted its highest “handle” or gross receipts in the history of the department. The “handle”, the money taken at the door before payouts or expenses are deducted totaled **\$608,011,213.21** in 2002. This is an increase of **\$962,334.92** dollars over 2001. However, since 1998 the gross receipts have risen by \$20 million dollars a year so this is a significant decrease in the rise of the gross receipts. The total payout statewide was **\$516,735,846.70** which is \$2 million dollars less than last year. The payout averages **85%** of the statewide gross handle.

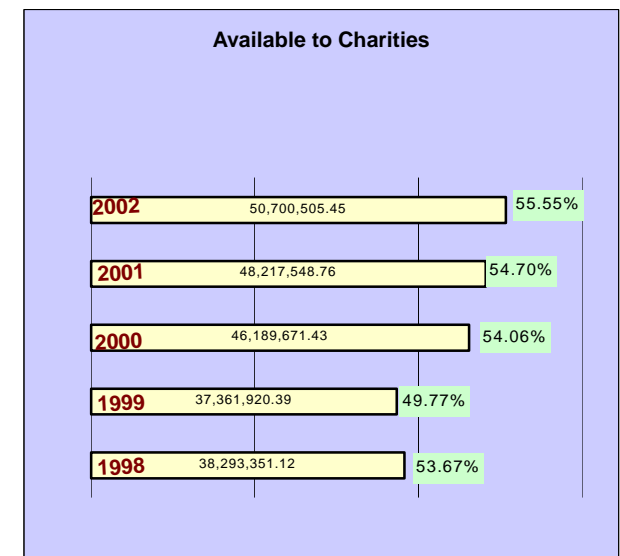
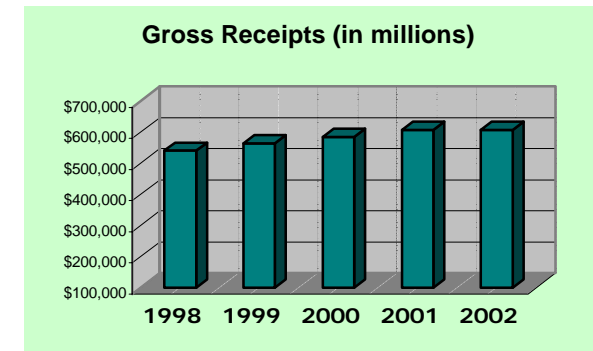
B. Retention Percentage

After expenses, the charities had **\$50,700,505.45** available for charitable purposes, almost **2 ½** million dollars more than last year. More importantly, the percentage of total dollars wagered that is available to (retained by) the charity increased yet again to **55.55%**, up from **54.70%** in 2001.

C. Attendance

The reported statewide attendance for 2002 was **5,450,449** individuals, which is up only slightly from last year. The largest gaming counties in attendance are: Jefferson, Simpson, Kenton, Boyd, Whitley, and Laurel. These counties accounted for **54%** of the attendance statewide. The six (6) largest gaming counties in gross receipts are: Jefferson, Boyd, Kenton, Simpson, Fayette, and Whitley.

Of the 120 counties in Kentucky, ninety-four (94) have some form of charitable gaming.



D. Training

In 2002, the department trained over 300 individuals consisting of CEO's, CFO's, chairpersons, and members of licensed charitable organizations.

E. Comparison to Other States

Kentucky has consistently ranked within the top six (6) states in gross receipts (handle) in charitable gaming. The other five (5) states are Minnesota, Washington, California, Ohio, and Indiana. Minnesota is far and away the leader in charitable gaming with almost one and a half (1 1/2) billion dollars wagered each year. Washington wagered over nine hundred (900) million dollars and California and Ohio wagered almost \$800 million each. Kentucky wagered over \$600 million while Indiana, Texas, and New York each wagered over \$500 million in 2000.

II. CHARITABLE ORGANIZATIONS/TYPES OF LICENSEES

A. Types of Charities

Charitable gaming licensees include churches; schools; band and athletic boosters; community sports programs; veterans; volunteer fire and rescue departments; animal rights groups; groups that support the arts, history, or museums; and fraternal and civic groups like the Optimists, Ruritan, Jaycees, Kiwanis, Rotary, Elks, Moose, Lions, Eagles, and Police.

The single largest block of licensees are the Catholic charities, either churches, schools, or men's groups. This accounts for approximately one-third (1/3) of the licensees. The next largest group of gaming licensees are those associated with the military. Together these two (2) groups, Catholics and Veterans, account for approximately one-half (1/2) of the licensees. Other significant categories of licensees are volunteer fire departments, school boosters groups, and arts funding.

- **Kentucky has consistently ranked within the top six states in gross receipts in charitable gaming**
- **94 counties in Kentucky have some form of gaming**
- **1/3 of charitable gaming licensees are Catholic charities (churches, schools, or men's groups).**
- **2nd largest group of gaming licensees are organizations associated with the military.**

At the end of 2002, there were seven hundred ninety (790) licensed charities and five hundred and forty-eight (548) exempt organizations. The Department issued three hundred and three (303) charity fundraising event licenses (fairs, festivals, etc.), and seventy-one (71) special limited charity fundraising event licenses (Casino nights).

B. Games

A charitable gaming license allows charities to play bingo, sell charity game tickets or pull tabs, hold raffles, have Casino nights, and have school and church festivals and picnics, etc. Of the charities licensed at the end of the year, two hundred ninety-five (295) ran (2) bingo sessions per week and two hundred fifteen (215) ran one bingo session per week. The remaining two hundred eighty (280), conducted a raffle, sold pull-tabs or had charity fundraising events only.

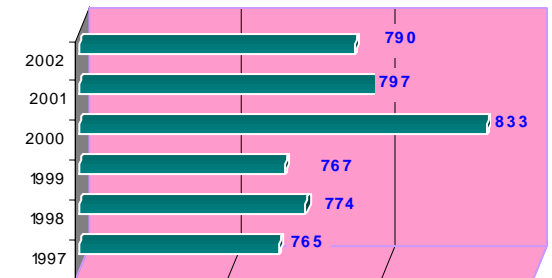
C. How Much Do the Charities Make?

Of the eight hundred nineteen (819) charities that reported in 2002:

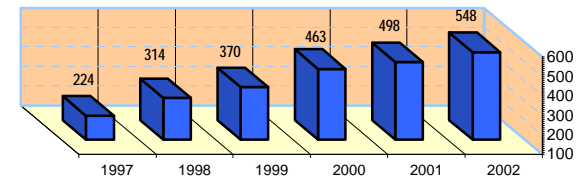
- 1) Thirty-eight (38) had no gross receipts;
- 2) Two hundred thirty-nine (239) made less than \$100,000;

Six (6) had less than \$1,000 in gross receipts;
 Sixty-two (62) made between \$1,000-\$10,000;
 One hundred and seven (107) made between \$10,000-\$50,000;
 Sixty-four (64) made between \$50,000-\$100,000;

Charitable Gaming Licenses Issued



Exemption Acknowledgements Issued



- 3) One hundred sixty-two (162) made between \$100,00 and \$500,000;

Fifty (50) made between \$100,000 and \$200,000;
 Forty-three (43) made between \$200,000 and \$300,000;
 Thirty-seven (37) made between \$300,00 and \$400,000;
 Thirty-two (32) made between \$400,000 and \$500,000;

- 4) One hundred and twenty-one (121) made between \$500,000 and \$1 million;
 Twenty-nine (29) made between \$500,000 and \$600,000;
 Twenty-one (21) made between \$600,000 and \$700,000;
 Twenty-eight (28) made between \$700,000 and \$800,000;
 Nineteen (19) made between \$800,000 and \$900,000;
 Twenty-four (24) made between \$900,000 and \$1 million;

- 5) One hundred seventy-two (172) made between \$1 million and \$2 million;

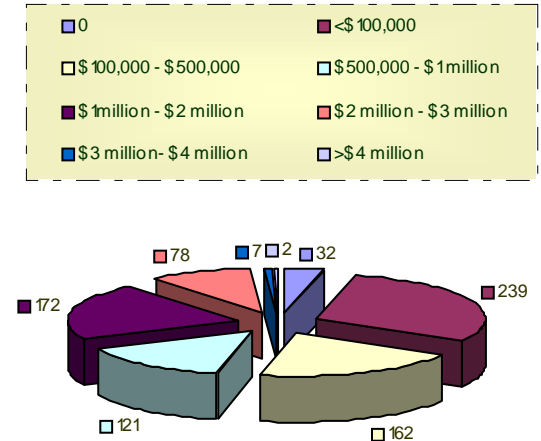
- 6) Seventy-eight (78) made between \$2 million and \$3 million;

- 7) Seven (7) made between \$3 million and \$4 million;

- 8) Two (2) made over \$4 million;

Therefore, factoring out the charities that reported no gross receipts, five hundred twenty-two (522) charities had receipts less than one million (\$1 million) and two hundred and fifty-nine (259) charities had receipts greater than one million (\$1 million). The average gross receipts per charity were **\$776,923.08**.

How Much Do Charities Make?



D. Expenses

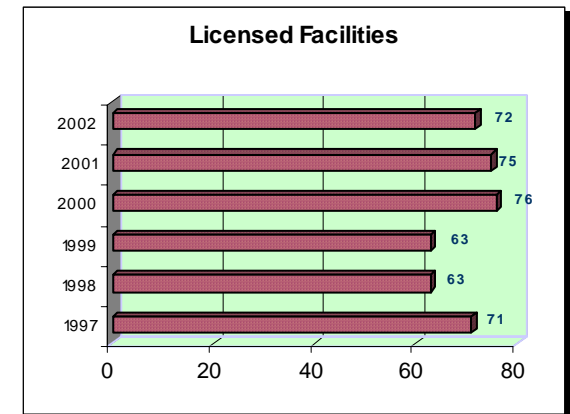
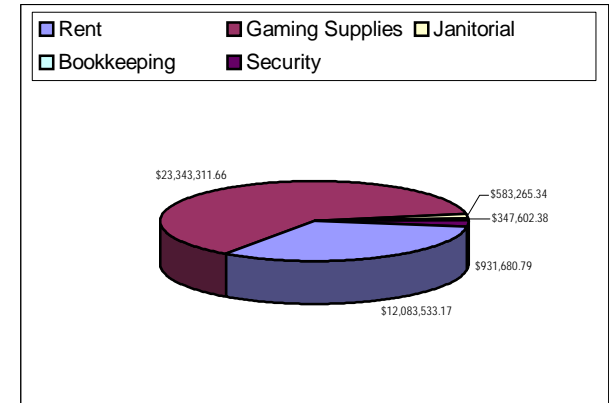
The total expenses statewide for 2002 were \$40,574,861.06. Of that total, almost thirteen million (\$12,803,533.17) was facility rent. The average facility made \$177,826.85 strictly from rental of the facility. This accounts for 31.6% of the expenses the charities paid.

The charities paid distributors over nineteen million dollars (\$19,428,114.50) for gaming supplies, i.e., bingo paper, pull-tabs, and prizes, and over four million dollars (\$4,915,197.16) for bingo equipment including flash-boards and monitors, and card-minding devices. The total supply and equipment expense statewide was over twenty-four million dollars (\$24,343,311.66). The average distributor grossed over one half million dollars on Kentucky charities (\$566,123.53). This accounts for 60% of the expenses the charities pay. Together the facilities and distributors alone account for 92% of the expense dollar.

The remaining expenses include: utilities, insurance, advertising, janitorial, bookkeeping, security, trade organization dues, and other. Statewide the charities paid \$931,680.79 for security, \$583,265.34 for janitorial, and \$347,602.38 for bookkeeping for a total of \$1,862,548.51.

E. Facilities

In 2002, the Department licensed a total of seventy-two (72) facilities. This number does not include organizations which game at their own facility or facilities which do not have more than two (2) organizations gaming.



F. Distributors

The Department ended 2002 with a total of forty-three (43) licensed distributors.

G. Manufacturers

In 2002 the Department licensed twenty-five (25) manufacturers, all of who are out of state businesses.

III. DIVISION OF LICENSING & COMPLIANCE

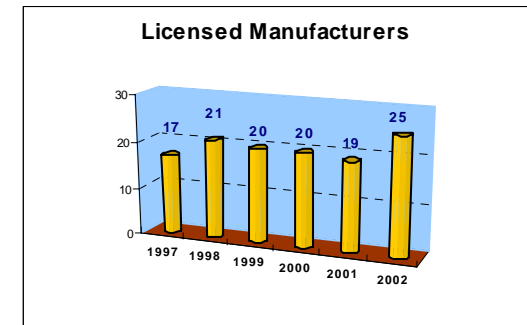
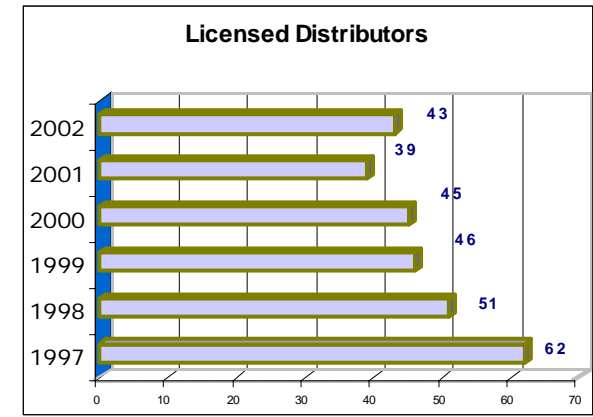
The Division of Licensing and Compliance has three (3) branches: Licensing, Compliance, and Accounting.

A. Licensing Branch

The Licensing branch review license applications for organizations, facilities, distributors, and manufacturers, send deficiency letters if required, refer the applications for criminal history checks, review exempt status organizations, issue licenses, and process license changes requested by licensees.

2002 has been a very busy year for the Licensing Branch. They have continued to provide in/house training the first Tuesday of each month for all licensed charitable organizations and those that are contemplating becoming licensed to conduct charitable gaming. Several off-site training sessions were also conducted.

The Branch also experienced an extremely large number of licensees not filing their renewal applications at least sixty (60) days prior to gaming or to expiration of their license as



required by 820 KAR 1:015 Section 1(1). This created a massive workload for the three licensing reviewers, but they were able to continue to process applications and changes in a timely manner.

The staff looks forward to 2003 with hope of continuing to meet the needs of the gaming community.

B. Accounting Branch

The Accounting branch reviews and reconciles the quarterly report forms filed by the organizations, facilities, and distributors, processes the fees for all licensees, processes annual reports filed by exempt organizations, and calculates the retention rate of the organizations based on their quarterly reports at the conclusion of the calendar year.

This branch currently has 2 employees who process the workload. 2002 was the first year facilities were required to file quarterly reports as well as for exempt groups to file annual financial reports. This added greatly to the workload of the accounting section. The Department hopes to add electronic filing of quarterly report forms along with electronic payment in the near future. This should add convenience for our licensees.

C. Compliance Branch

A total of eleven (11) Charitable Gaming Compliance Officers are regionally located throughout the state. The Compliance Officers conduct on-site inspections of licensed charitable gaming activity to assure adherence to applicable charitable gaming statutes and administrative regulations. In addition, the Compliance Officers investigate complaints and



perform background investigations on organizations. Upon request, the compliance officers provide training to new licensees. Training is provided at the Department on the first Tuesday of every month. During 2002, the Compliance Branch conducted a total of two thousand, three hundred and fifty-nine (2,359) inspections. The branch also investigated ninety-one (91) of the total one hundred thirty eight (138) complaints received by the Department.

IV. DIVISION OF ENFORCEMENT

The Department has strong enforcement powers, including examining charitable gaming supplies and equipment and conducting in-depth audits and investigations. The Division of Enforcement has two (2) branches, Audit and Investigations.

A. Audit Branch

The Audit Branch has a total of nine (9) auditors regionally located throughout the state and is headed by a certified public accountant. The Auditors conduct in-depth audits of charitable gaming activities to ensure that high standards of accounting, record keeping and reporting of charitable gaming receipts are met. The results of such audits may lead to corrective measures on the part of a licensee and/or administrative action against the charitable organization's license.

The Audit Branch's biggest accomplishment has been to continually perform audits in sometimes difficult and stressful circumstances, while working with organizations and personnel who often do not appreciate either their presence or their efforts. The auditors often work with records that are inadequate in accuracy and manner of preparation. They do this while maintaining a professional demeanor and attitude toward their work, always keeping in mind that they are representatives of the Commonwealth and their purpose is to assist the charities in

The Inspections are broken down as follows:

2073	Charitable Organizations
140	Facility Inspections
14	Special Limited Events
132	Charity Fundraising Events/Special Limited Events



The Audit Branch opened a total of thirty-six (36) audits, and closed thirty-three (33) audits.

gaming. The biggest challenge faced by the Branch is performing audits in an industry, which does not yet have standardized record-keeping requirements. Therefore, the first challenge the auditor faces is to determine how a particular charity keeps its gaming records and then to conduct the audit accordingly.

B. Investigations Branch

There are five (5) investigators regionally located throughout the state. They investigate complaints with allegations of criminal wrongdoing. These criminal allegations include theft, forgery, criminal possession of a forged instrument, promoting gambling, possession of a gambling device, participating in a continuing criminal enterprise, tax evasion and money laundering. The results of these investigations could result in administrative action or civil and/or criminal action. In several of these cases the Department is cooperating with the federal prosecutor and federal law enforcement agencies, the Kentucky State Police and other local law enforcement.

V. COUNTY-BY-COUNTY BREAKDOWN

The following pages include charts of the gross receipts, gross payouts, expenses, and attendance broken down by county.



The Investigations Branch opened seventeen (17) cases and closed twenty-five (25) including cases from prior years.

ARRESTS- 3

INDICTMENTS- 5

CONVICTIONS- 8

**COURT ORDERED
RESTITUTIONS
TO CHARITIES- \$104,000**

Charges Include:

**Diversion of Charitable gaming funds
over \$300**

**Theft by Failure to make Required
Disposition over \$300**

Engaging in Organized Crime